



United States Department of Agriculture
Rural Development

September 8, 2005

SUBJECT: Liquidation of the Rural Telephone Bank

TO: Class B and Class C Stockholders and Bank Borrowers

FROM: JONATHAN P. CLAFFEY
Acting Assistant Governor
Rural Telephone Bank

A handwritten signature in black ink, appearing to read "Jonathan P. Claffey". The signature is written in a cursive, flowing style.

At its August 4, 2005 meeting, the Board of Directors of the Rural Telephone Bank (Bank) unanimously approved resolutions to liquidate and dissolve the Bank. This action followed six months of discussion and deliberation regarding the liquidation of the Bank that was initiated by the submission of President Bush's FY2006 Budget to Congress on February 7, 2005. The approval of these resolutions will lead to the liquidation of the Bank within the next year, subject to the removal of the statutory restriction on the redemption by the Bank of Government-owned Class A stock as is discussed below.

The Bank has taken a number of steps to ensure that all interested parties are fully informed about the progress of liquidation. It has created a new webpage specifically devoted to the topic (<http://www.usda.gov/rus/telecom/rtb/liquidation.htm>). This page includes links to frequently asked questions, a timeline, and copies of the liquidation resolutions with attachments. The Bank also published the resolutions and attachments in the Federal Register on August 18, 2005.

Notwithstanding the steps the Bank has taken, it has received a number of questions regarding liquidation. The purpose of this letter is to share answers to these questions and general information regarding the liquidation of the Bank with all the Bank's stockholders and borrowers. The information will deal with two main topics, the effect of liquidation on outstanding loans, including loans with unadvanced funds, and the redemption of Class B and Class C stock.

The effect of liquidation on outstanding loans will be different, depending on the age of the loans. Bank loans are divided into two groups: Liquidating Account loans – loans approved on or before September 30, 1991, and Financing Account loans – loans approved on or after October 1, 1991. For currently outstanding loan balances, billing will remain unchanged for both Liquidating Account and Financing Account loans. However, additional advances of funds will be handled differently for the two types of loans.

Effective October 1, 2005, no additional funds will be advanced on Liquidating Account loans. As of September 1, 2005, there were only 29 loans in this category, with a median unadvanced balance of \$334,000, so this change will not have a significant effect on many borrowers. Nonetheless, **Liquidating Account borrowers need to be aware that all access to these funds will end September 30, 2005.**

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Financing Account borrowers may continue to requisition loan funds after September 30, 2005; however, the amount of funds advanced will change. Because the Bank is freezing the amount of Class B and Class C stock outstanding as of September 30, 2005, no additional funds will be advanced for the purchase of Class B stock effective October 1, 2005. Requisitions from borrowers must continue to include a request for funds to purchase Class B stock, but the amount of funds advanced will be limited to funds needed for non-stock purchases. In the unlikely event that the liquidation process of the Bank is terminated (due to the continued existence of the restriction on the redemption of Class A stock), all funds requisitioned for Bank stock purchases after September 30, 2005, will be advanced and additional Class B stock issued. However, in the likely event that the restriction on the redemption of Class A stock is removed, the need to include on a requisition an amount for purchase of Class B stock will be eliminated, and requisitions after that date will change accordingly.

Just as the removal of the restriction on the redemption of Class A stock affects the advances of funds for Financing Account loans, it also controls the timetable for redemption of Class B and Class C stock. The Bank cannot liquidate until the restriction is lifted. The date that the restriction is lifted is, therefore, a reference point in the Board's resolutions and documents pertaining to liquidation.

Between one and two months after the date the restriction is lifted, Stock Redemption Agreements are to be sent to all Class B and Class C stockholders. Between four and six months after the date the restriction is lifted, stock redemption payments are to be issued to Class B and C stockholders who have executed and returned their Stock Redemption Agreements. No paper stock certificates will need to be returned as part of this process, because the changes to the Bylaws of the Bank approved by the Board on August 4, 2005, will cancel all paper stock certificates as of October 1, 2005, and replace them with book-entry stock in the records of the Bank.

The order of redemption of shares of stock, as laid out in the legislation that created the Bank, is Class A followed by Class B and then Class C. Subject to the availability of sufficient resources to do so, the Bank expects to redeem all outstanding shares of stock at par value. Par value is \$1 per share for Class A and Class B stock and \$1,000 per share for Class C stock. Any funds remaining at the end of the liquidation process will be shared pro-rata by Class A and Class B stockholders, in accordance with the legislation that created the Bank.

Redemption payments for Class B and Class C stock will be sent directly to stockholders via wire transfer; the information necessary to complete the transfer is to be provided by the stockholder in the Stock Redemption Agreement. Recipients can choose to use their proceeds to prepay Bank debt in accordance with their loan terms. The Bank will not automatically post the redemption payments as an offset to debt, except for cases of delinquency or default.

As additional information pertaining to the liquidation process becomes available, the Bank will keep borrowers and stockholders informed by posting such information on its website, at the address listed above. Additional questions that have not been answered by this letter or through the website can be addressed to Richard Anderson at (202) 720-8818 or by email at richardj.anderson@usda.gov.

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